

**MINUTES OF A MEETING
KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
BOARD OF DIRECTORS**

November 17, 2016

A Regular Meeting of the Board of Directors of the Kentucky Workers' Compensation Funding Commission was held on November 17, 2016, in the Commission's conference room, located at #42 Mill Creek Park, Frankfort, Kentucky. Madam Chair Judy Long called the meeting to order, verified that proper notice had been given to the media and KWCFC Directors, and asked for a roll call.

Directors Present:

Judy Long, Self-Insured Employers Representative
Bill Finn, Labor Representative
Derrick Ramsey, Secretary, Labor Cabinet
Duran Hall, Commercially Insured Employers
Edwin King, Designee for Secretary William Landrum, Finance & Administration Cabinet
Michelle Landers, KEMI, Insurance Representative
Caroline Baesler, Designee for Interim Secretary Erik Dunnigan, Cabinet for Economic Development

Introductions:

Executive Director Reuben Jones introduced two new employees Estee' Jackson and Tyler Paske to the Board.

Others Present:

Reuben Jones – Executive Director, KWCFC
Renee Haddix – Director of Audit and Collections, KWCFC
Louie Hord – Director of Fiscal Operations, KWCFC
Lisa King – Audit Review Manager, KWCFC
Angela Calloway – Fiscal Services Officer, KWCFC
Gordon Stammel – Computer Network Manager, KWCFC
Estee Jackson – Administrative Services Officer, KWCFC
Tyler Paske – Auditor, KWCFC
Michael Swansburg – General Counsel, Labor Cabinet
Brooken Smith – Chief of Staff, Labor Cabinet
Kim Bechtel – Office of Financial Management
William Emrick – Department of Workers' Claims
Ryan Barrow – Executive Director, Office of Financial Management
Judith Erickson – Division Director, Workers' Compensation Funds
Allen Norvell – Blue & Company
Gary McCollum – Assistant General Counsel for Alliance Coal

Following introductions Madam Chair Judy Long respectfully recognized the passing of Bob Whittaker. He will be greatly missed as both a fellow state employee and friend to many.

Madam Chair also announced the departure of Steve Jones from the Office of Financial Management and welcomed Kim Bechtel.

Approval of Minutes:

Secretary Ramsey made a motion to approve the July 21, 2016 minutes. Bill Finn seconded. Motion carried.

Financial Report: Louie Hord (report on file for referral)

Louie Hord reviewed year to date budget versus actual expenses for KWCFC, the year to date internal financial statements, and fiscal year to date interagency transfers made by KWCFC for the period ending October 31, 2016.

Michelle Landers made the motion to accept the Financial Reports as presented. Duran Hall seconded the motion. Motion carried.

Investments: Kim Bechtel, OFM (report on file for referral)

Kim Bechtel presented the Investment Positions/Strategies detailing the total value of the Special Fund which is \$576 million (which includes security lending transactions of approximately \$330 million), the CWP Fund around \$15.5 million, the Self Insurance Fund approximately \$11 million and Administrative Funds. She reviewed the Special Fund Actuarial Projections & Results report and then discussed the Securities Lending results through October 31, 2016. She pointed out that while utilization rates did decrease the monthly net income did increase providing additional income. Ms. Bechtel then referred to the Coal Workers' Pneumoconiosis Fund Report through October 31, 2016 showing the performance of the mutual funds.

Duran Hall made the motion to accept the investment report. Edwin King seconded the motion. Motion carried.

Audit Report: Allen Norvell, Blue & Co. (report on file for referral)

Allen Norvell first thanked the Funding Commission for the opportunity to conduct the audit and expressed his appreciation to the staff for their cooperation and assistance. Mr. Norvell then reviewed the financial statements of the Kentucky Workers' Compensation Funding Commission for the year ending June 30, 2016. Blue & Co issued an unmodified opinion, dated November 16, 2016 on the financial statements of the Funding Commission as of and for the fiscal year ending June 30, 2016. The audit disclosed no instances of noncompliance which are material to the Funding Commission's financial statements. The audit disclosed no findings that are required to be reported in accordance with the Government Auditing Standards.

Duran Hall made the motion to accept the Actuarial Report. Bill Finn seconded the motion. Motion carried.

Coal Workers' Pneumoconiosis Rate Update:

Reuben Jones took a moment to update the Board on the inquiries that have come in since the rates of the CWP Fund were raised. He reported a total of five (5) inquiries since the rate change.

Coal Workers' Pneumoconiosis Claims Overview: Judith Erickson, Division Director, Workers' Compensation Funds

Ms. Erickson presented an overview of the payment of claims process. After a brief history of her background and experience she gave an explanation of her job duties, the division and the mission of the funds. The division pays about 7,000 disabled workers or surviving dependents a month. The Special Fund pays two (2) weeks out of the month and the Coal Fund pays two (2) weeks. Ms Erickson further talked about the retraining and apprenticeship programs available to disabled workers. The RIB program pays \$500/weekly with a \$5,000 2 year retraining bonus and a \$10,000 4 year retraining bonus. Ms Erickson reported 19 claims for Southeast, 3 claims for Green Coal, 488 CWP claims and 6,979 Special Fund claims.

Ms. Erickson answered questions posed by the Board regarding claims and awards process. Executive Director Reuben Jones and Judith Erickson will meet weekly to stay up to date on claims filed and processed.

Audit & Collections Update: Renee Haddix (report on file for referral)

Renee Haddix presented an update on the number of audits ongoing and completed. She reported that the audit staff continues on a 2 year audit cycle.

Duran Hall made the motion to accept the Audit and Collections report as presented. Bill Finn seconded the motion. Motion carried.

Executive Session:

Judy Long, Chair, asked for a motion to go into executive session under KRS 61.810 (1) (c), (f) and (j) to discuss personnel, penalty waivers and litigation.

Michelle Landers made the motion to go into executive session. Edwin King seconded the motion. Motion carried.

Open Session:

Michelle Landers made the motion to return to open session. Caroline Baesler seconded. Motion carried.

Personnel:

Bill Finn made the motion to increase David Ritchie's salary to \$ 41,580 effective November 1, 2016 due to his successful completion of his first year of employment. Michelle Landers seconded the motion. Motion carried.

Bill Finn made the motion to increase Scott McKelway's salary to \$ 41,580 effective November 1, 2016 due to his successful completion of his first year of employment. Michelle Landers seconded the motion. Motion carried.

Penalty Waivers:

Caroline Baesler made a motion to deny the penalty waiver request from Revelation Energy in the amount of \$1,554.56 for the late filing of 2nd quarter 2016 Quarterly Premium Report per KRS 342.1221 interest cannot be waived. Bill Finn seconded. Motion carried.

Caroline Baesler made the motion to deny the penalty waiver request from Employers Insurance Group in the amount of \$956.10 for the 2nd quarter 2016 Quarterly Premium Report. Bill Finn seconded. Motion carried.

Caroline Baesler made the motion to deny the penalty waiver request from EMC Insurance Company in the amount of \$597.80 for the 2013-2014 audits. Duran Hall recused himself from vote due to conflict. Bill Finn seconded. Motion carried.

D&O Insurance:

Louie Hord reported to the Board that the RFP had been issued for D&O Insurance. Responses were received, reviewed and evaluated and recommends that the Board accept the bid from Powell Walton Milward for \$24,130.67 for the period covering 12/31/16 to 12/31/17. The insurance company and the amount remain the same as last year. Bill Finn made the motion to accept. Caroline Baesler seconded.

Red Tape Initiative:

Brooken Smith spoke to the Board on the Red Tape Initiative. Currently there are approximately 4,700 regulations on the books and 85% have never been reviewed. It is the goal of the administration to have regulations reviewed by agencies, employees and the public to help eliminate unneeded and outdated regulations that prohibit the state from being economically competitive.

2017 Meeting Dates:

Executive Director Reuben Jones addressed a time constraint issue with the current board meeting schedule regarding the 3rd Thursday of every other month. As a result, he proposed the 4th Wednesday be considered with the exception of the May and November meetings. These dates are May 18th and November 15th.

Madam Chair Judy Long asked for the motion to accept the dates as presented, Edwin King made the motion as stated. Derrick Ramsey seconded.

2017 Meeting Dates

January 25th

March 22nd

May 18th (Thursday)

July 26th

September 27th

November 15th (3rd Wednesday due to Thanksgiving)

E-File/E-Pay Enhancements:

Executive Director Reuben Jones reported that the enhancements to the E-File/E-Pay system were not complete but were in que and going well and the cost was under the money requested.

Audit Program Software:

Mr. Jones also reported that the acquisition rules for the state were being followed for the purchase of the Audit Program Software and the Commission will address the process and cost at a future meeting.

Personnel Dress Code Policy:

Mr. Jones recommended the Board adopt the Dress Code Policy implemented at the Labor Cabinet effective November 1, 2016.

Duran Hall made the motion to approve the policy on professional appearance that the Labor Cabinet has adopted. Caroline Baesler seconded. Motion carried.

Investment Strategy:

Mr. Jones recapped the last several years of investment history. Based on the lag of performance of the CWP Fund and the Special Fund now falling below 3.5% rate of return, Mr. Jones recommended the Board evaluate the investment strategy in order to achieve a greater ROI for each of the funds.

Madam Chair Judy Long gave a brief history prior to the current investment strategy policy. She asked Secretary Derrick Ramsey and Duran Hall, along with herself and Reuben Jones to serve on a committee to bring back some recommendations on investments to the Board.

Mr. Edwin King voiced his support of contracting out for equity investment expertise because of OFM's experience being limited to agency and fixed income markets. He also cautioned the Board concerning liquidating assets at the current time because of inflated equity market, low interest rates and losses that could be incurred due to not

holding current investments to maturity. Mr. King asked that he and Secretary William Landrum be involved in the discussion at an early stage of investment strategy recommendation.

Adjournment:

Bill Finn made the motion to adjourn. Derrick Ramsey seconded the motion. Motion carried.


Chairman of the Board